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C O N F I D E N T I A L SECTION 01 OF 02 MONTREAL 000622

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SUBJECT: UPDATE ON HYDRO-QUEBEC'S ENERGY PLANS

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11. (U) Summary: On May 23, Embassy Ottawa EMIN Brian Mohler and ConGen Montreal Econoff Anne Coleman met with Marie-Jose Nadeau (please protect), Hydro Quebec's Executive Vice-President for Corporate Affairs, at the utility's Montreal headquarters. Ms. Nadeau provided an overview of Hydro Quebec's current corporate strategy, its reaction to Quebec's recently-released Energy strategy, and its plans for future corporate development. End summary.

12. (C) Ms. Nadeau noted that Hydro Quebec (HQ) is one of the largest utilities in North America, and the largest in Canada. HQ remains primarily a producer of hydro-electricity (97% of the utility's energy output) although it has begun to develop wind power as a complementary energy source. The utility's forays into wind production have thus far been limited to buying wind power from independent producers (it plans to commission 3,500 megawatts of wind energy). GE has build some wind turbines from which HQ will acquire its wind energy. Nadeau stated that the public's hopes about the contribution of wind power are frankly unrealistic, but HQ cannot make this view known publicly for fear of being labeled anti-environmentalist. HQ's official position, according to Nadeau, has been to support (the development of wind power) but to make it public that we must continue to develop hydro power if the utility is to meet Quebec's energy needs. Its two largest current hydro projects include the Eastmain 1 and Eastmain 1A in northern Quebec on the shores of James Bay.

13. (U) Ms. Nadeau stated that HQ viewed the Quebec government's recent energy strategy announcement (reftel) as a positive development, especially its plan to develop an additional 4,500 megawatts of hydropower from new installations in eastern Quebec. She stated that a project in the Romaine river (to supply 1,500 megawatts) would be launched this fall with the preparation of an initial environmental impact study, followed by public consultations. A proposed installation in Petit Mecetina, also in eastern Quebec, would also supply another 1,500 megawatts. The last 1,500 megawatts would theoretically come from upgrades to existing installations. With regard to the emphasis on wind power in the provincial energy strategy, Ms. Nadeau assured us that HQ could certainly cope with what was proposed by the government.

14. (SBU) Although Quebec sometimes buys energy (mostly from the U.S.), it remains a net energy exporter, primarily to Ontario and the northeastern U.S. HQ has been active as a trader in the spot electricity market for the last ten or fifteen years but will now start turning its attention towards longer-term contracts as well. HQ is investigating the construction of a new interconnection with Ontario's

electric grid and developing a long-term export contract with Ontario. Ms. Nadeau acknowledged the possibility of moving towards more longer-term contracts with states in the northeastern U.S. as well, but added that a potential limiting factor for such developments is the fact that electric interconnections between Quebec and the U.S. already operate near capacity. Asked if HQ would consider selling more of its energy to Canadian provinces west of Ontario, Nadeau replied that this would be a possibility, so long as there was a strong business case for such exports.

15. (U) Currently, the transmission lines that connect Quebec and New England are located in Vermont and New Hampshire. Although more connection lines would allow for greater exports of energy, new transmission lines are not popular with anyone. Transmission grids lie under provincial jurisdiction and Quebec and the U.S. do not operate on the same electrical frequency. This lack of synchronization was intentional, initially due to fears from the U.S. side that a blackout in Quebec would impact New England. In a perverse twist of fate, it was the lack of synchronization that protected Quebec from the 2003 blackouts in Eastern North America. According to Nadeau, the need to convert energy to the U.S. frequency when it crosses the border does not create bottlenecks because there is still capacity on the lines connecting Quebec and New England.

16. (C) Ms. Nadeau stated that past conflicts with the Cree tribe have been settled regarding the Eastmain 1A project at James Bay. She acknowledged that dealing with first nation groups "is never easy" and that HQ will need to undertake similar consultations with a different First Nations group in the course of its future planned developments in eastern Quebec. HQ's work at the Eastmain 1A project has been

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subject to a public hearing process which is nearly completed, and the ten matter will be in the hands of the federal and provincial governments.

17. (U) Ms. Nadeau stated that HQ has undertaken a major security plan, including security officers and cameras in its installations (though she made no mention of the recent incident in which a series of classified documents detailing HQ's security measures and temporary passwords was discovered by a Radio-Canada employee on a Montreal Metro station.) HQ operates one nuclear power plant, the Gentilly-2, located in Trois-Rivieres, which the utility must decide whether to "refurbish or mothball" in the next few years.

18. (U) Hydro-Quebec will be releasing its new corporate strategy in early June. Ms. Nadeau stated that the corporate strategy would be in line with the energy policy just released by the Quebec government, and would also focus on the importance of energy efficiency and research and development.

MARSHALL